COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

D.T.E. 03-45

REQUEST: Department of Telecommunications and Energy Information Request to AT&T Communications of New England

DATE: August 11, 2003

DTE-1-1: Please support you assertion that an in-state universal service fund is necessary for competitive local exchange carriers to compete for residential customers in Zone 4 by providing an analysis of your revenues and costs for a typical residential customer relative to Verizon's basic exchange rates.

RESPONSE:

In its Initial Comments, AT&T noted the importance of a state universal service fund to the furtherance of the Department's goals of enabling competition throughout the state, including rural areas. Under the current UNE and intrastate access rates paid by carriers to Verizon, it is not possible for competitive carriers to economically offer local residential service in the rural density zone. The comparison of monthly per line UNE-P costs and revenues attached demonstrates that the gross margin for serving residential customers in Zone 4 (prior to accounting for a CLEC's internal costs) is very low. It is important to keep in mind, however, that the revenues from residential features (ancillary services) indicated in the attached are based on *current* Verizon prices for such services. Any CLEC considering market entry must base its decision to enter the market on what prices will be ***post***-entry. Because Verizon's prices for the ancillary services are currently far above cost, AT&T expects that such prices will be reduced towards cost after CLEC entry, and therefore the revenues will decline accordingly. Any CLEC that simply assumes that the revenues currently generated from ancillary services will be available to it will be making a potentially fatal mistake. In any event, even if Verizon were to maintain its current prices for residential features (ancillary services) after competitors enter the Zone 4 market, the operating margin in Zone 4 is negative after carriers factor in customer acquisition and other internal costs.

AT&T believes that it is necessary for the Department to establish a state universal service fund to provide a mechanism by which subsidies would flow directly to residential customers (in Zone 4 and throughout the state) through the local carrier of their choice. A system in which the subsidy is portable and moves with the customer would allow consumers to have a choice in local service providers, insofar as they would no longer be forced to purchase service from Verizon in order to receive subsidized service. This would further the Department's goal of promoting competition in the residential market throughout the state including the rural areas.

[PUBLIC VERSION]

Density Zone 4 - UNE-P per Line Costs vs. Revenues

Costs:

Loop	$24.32
Port	$ 2.22
Usage[1]	$ **XX**
OSS	$ 0.12
Monthly UNE-P	$ **XX**
NRC	$ 0.08
Total Monthly Cost	**$XXX**

Revenues:

Basic Local Service	$ **XXX**
Features[2]	$ **XXX**
SLC	$ 6.26
Access	$ **XXX**
USF / IAS	$ 0.04
Total Monthly Revenue	**$XXX**

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1 AT&T assumes **XXX** MOUs local usage per line per month based on experience in states where we have entered the local residential market with UNE-P.

2 AT&T calculates the average Massachusetts residential feature revenue per customer based on an average customer profile from 2002 TNS Bill Harvesting data.

Anticipated Monthly Gross Margin Per line:	**$XXX**
Gross Margin Percent:	**X%**